Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Federal State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS
of the
RURAL TELEPHONE FINANCE COOOPERATIVE

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The Rural Telephone Finance Cooperative (RTFC) submits these comments in response to the Commission's Notice of Proposed Rulemaking of January 29, 2008. RTFC is a privately funded, member-owned cooperative financing organization that provides credit exclusively to America's rural telecommunications industry. RTFC offers loans and financial services to creditworthy telecommunications systems eligible to borrow from the Rural Utilities Service (RUS) Telecommunications Program, as well as to affiliates of these systems. As of November 30, 2007, RTFC had approximately $1.8 billion outstanding to rural telecommunications service providers.

RTFC is extremely concerned by the Commission's seeming commitment to a regime of reverse auctions for determining the amount of high-cost universal service support provided to eligible telecommunications carriers serving America's rural areas. As a lender that is closely engaged with the rural local exchange carrier (RLEC) industry, we can say unequivocally that imposition of reverse auctions on RLECs would significantly impair their ability to borrow funds for capital improvements.

In comments to the Federal State Joint Board on October 10, 2006, RTFC cautioned as to the adverse effect a reverse auction regime would have on capital formation for the RLEC sector and, ultimately, on rural infrastructure and the services delivered over it to rural Americans. Nevertheless, here is a proceeding stemming from the Joint Board's recommendations that treats some form of reverse auctions as a foregone conclusion.

As is noted in the NPRM, the Telecommunications Act of 1996 (the "Telecom Act") requires that "there should be specific, predictable and sufficient federal and state universal support mechanisms; quality services should be available at just, reasonable and affordable rates; and consumers in all regions of the nation should have access to telecommunications services that are reasonably comparable to those services provided in urban areas at reasonably comparable rates." It is hard to see how any reverse auction regime can produce high-cost universal service support that would meet these statutory criteria. By their very nature, auctions assume that the ultimate winners are unknown going in, the antithesis of the Telecom Act's requirements of "specific, predictable and sufficient" support.

High-cost universal service support is an essential revenue source for many RLECs — especially those that serve America's most rural and remote areas. From a lender's perspective, unless a revenue stream can be projected for the entire life of the loan being considered, it leaves a "hole" in the business plan's financial projections. In most normally amortizing loans, the majority of the principal amount of the loan is still outstanding at the mid-point of the life of the loan. A lender's credit decision is dependent upon the borrower's ability to service its debt not only today but also throughout the entire term of the loan. How will RLECs secure debt financing if a critical revenue source may be lost in five or seven years? Loss by RLECs of access to debt capital would ultimately result in a degradation of the quality of service available to America's most rural citizens.

For some time we have seen an ongoing, significant reduction in RLECs' access revenues. To date, we have continued to be able to provide financing for critical infrastructure upgrades to our member RLECs. We have confidence that the capabilities of the financed facilities will allow for a suite of services in demand by their customers. These services, usually marketed in a bundle (the "triple play"), are projected to ultimately generate adequate cost recovery necessary for servicing the loan. This evolution in cost recovery minimally meets our test as adequately predictable. We remind the Commission that RTFC is owned by our member/borrowers and does everything possible to accommodate our members' financing requests. However, in order to make a loan, even a member-owned cooperative such as RTFC must use all possible due diligence in ascertaining that a prospective borrower's revenue streams are adequate for the life of the projected loan. The possibility of relatively sudden and possibly total loss of high-cost universal service support at some point in the life of the loan creates an insurmountable level of uncertainty that the borrower will be able to service its debt. This consequence of reverse auctions would not seem to meet the Telecom Act's requirement that universal service support be "specific, predictable and sufficient."

Providing telecommunications service in rural areas involves putting in place plant facilities that can reach customers at long distances from a switching facility. Population density is extremely low compared to urban areas. Hence, rural telecommunications providers face the challenge of high costs for facilities to reach remote locations and few customers along the way to help cover the cost. Plant was put in place to the most remote customers in fulfillment of the carriers' compact with federal and state regulators and, in most cases, the Rural Electrification Administration (REA, now Rural Utilities Service or RUS).

For many years REA was the sole lender to rural telephone companies. REA would make loans available for the life of the assets financed or even longer in the early days of the program. In return for this funding, borrowers were required to provide "area coverage," i.e., extending facilities to all residents in the carrier's service territory. This is how rural areas got modern telecommunications service. It is why rural wireline providers have the highest costs. To change the method of distributing high-cost universal service support — putting these carriers at risk of losing that support to a lower bidder — risks the quality telecommunications services rural Americans have come to expect and rely on.

RTFC began lending 20 years ago to supplement and complement the REA telephone lending program. Rural telecommunications providers rely on debt capital. Most are too small to self-finance significant upgrades and additions to their plant facilities. Over the years, most have retained enough of their earnings to achieve a solid equity position. But new projects require access to debt financing. RLEC plant investment levels tend to occur in peaks and valleys due to RLECs' small size. Large telecom companies tend to have ongoing construction programs that allow them to schedule upgrades over various portions of their systems and "smooth out" the investment cycle. The typical RLEC does not have this luxury. When RLECs need to make upgrades they generally do it to all, or a significant portion, of their network. This requires access to debt capital "right then."

To qualify for a loan, RLECs must have sufficient and predictable revenue streams. RLECs cannot hope to get a loan if they must disclose to a lender that a key revenue stream — high-cost USF — is up for auction three, five or seven years hence, and at that point they may lose it entirely. Lenders will not lend on that basis. Loss of access to debt financing will have a profound and adverse impact on America's rural telecommunications network and the services it can provide.

In a companion NPRM, the Commission is considering eliminating the identical support rule and basing competitive ETCs' high-cost universal service support on their own costs, rather than those of the incumbent LEC. This is a good proposal. But a reverse auction regime is at cross-purposes with this proposal. What may be bid in a reverse auction is not necessarily related to a bidder's costs. Competitive ETC bidders may only seek to come in under the RLEC's publicly available costs. If their cost structure (or the costs a large wireless carrier allocates to a specific area) is sufficiently low, they can reap windfall profits from a reverse auction regime.

Reverse auctions are needlessly complicated, will likely produce inequitable outcomes and do not meet the requirements of the Telecom Act. As a major lender to the rural telecom sector, we can assure you that a reverse auction regime for determining high-cost universal service support would severely harm RLECs' ability to borrow funds for capital improvements and, as a result, the quality of telecommunications service to rural Americans would be degraded.